BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2000-007-G - ORDER NO. 2000-0434

MAY 15, 2000

IN RE: Annual Review of the Purchased Gas Adjustments (PGA) and Gas Purchasing Policies of South Carolina Pipeline Corporation.	)	ORDER ON PRUDENCE, PGA, AND RELATED MATTERS

This matter comes before the Public Service Commission of South Carolina (the Commission) on its annual review of the Purchased Gas Adjustments (PGA) and Gas Purchasing Policies of South Carolina Pipeline Corporation (SCPC).

I. INTRODUCTION

Commission Order No. 87-1122 provides that an annual review be conducted of SCPC's PGA and Gas Purchasing Policies. In this proceeding, the review period is January 1999 through December 1999. Petitions to Intervene were filed by the Consumer Advocate for the State of South Carolina (the Consumer Advocate), Chester, Lancaster, and York Natural Gas Authorities (the Authorities), and Nucor Steel (Nucor).

A hearing was held in this matter on May 4, 2000, at 10:30 a.m. in the offices of the Commission, with the Honorable Philip T. Bradley, Chairman, presiding. SCPC was represented by Catherine D. Taylor, Esquire, and Mitchell Willoughby, Esquire. SCPC presented the testimony of Asbury H. Gibbes, Paul V. Fant, and John S. Beier. The Consumer Advocate was represented by Elliott F. Elam, Jr., Esquire. The Authorities were presented by James W. Sheedy, Esquire; and Nucor was represented by Russell B.

Shetterly, Jr., Esquire. The Commission Staff (the Staff) was represented by F. David Butler, General Counsel. The Staff presented the testimony of Norbert M. Thomas and Brent L. Sires.

II. FINDINGS OF FACT AND CONCLUSIONS OF LAW

A. GAS PURCHASING POLICIES AND PRACTICES

As an initial matter, we find that SCPC's purchasing policies and practices were prudent during the review period. SCPC witness Fant testified in detail about SCPC's recent gas purchasing policies and practices, concluding they were prudent. SCPC witness Gibbes reached the same conclusion, as did Staff witness Sires. No evidence to the contrary was presented at the hearing.

During the review period, SCPC maintained a reliable and flexible portfolio of gas supply, storage, and capacity. (Testimony of Fant at 2-5.) SCPC continued to demonstrate that it places a high level of importance on securing reliable gas supplies and on making prudent decisions in purchasing its gas supplies. (Testimony of Sires at 2-3.) No supply problems were noted on the company's system during the review period. (Testimony of Sires at 2-3.) In addition, SCPC continues to exhibit its capabilities to secure gas supplies in a prudent manner and at reasonable costs. (Testimony of Sires at 3.) We therefore find that SCPC's gas purchasing policies and practices were prudent during the period of January 1999 through December 1999.

B. ADHERENCE TO TARIFF

We also find that during the review period SCPC properly adhered to the tariff provisions relating to recovery of its gas costs. There was no dispute as to whether gas costs were properly recovered during 1999. SCPC witness Beier described the procedure the company followed for gas cost recovery, concluding that calculations were made in compliance with the approved tariff and Commission directives. (Testimony of Beier at 4-5.) Staff witness Thomas presented the Commission Staff's audit of the company's cost of gas, verifying that the cost of gas for the review period was properly accounted for. (Testimony of Thomas at 7.) Accordingly, we find that for the period of January 1999 through December 1999 SCPC's gas costs were accurately stated, SCPC's gas cost recovery was calculated in compliance with Commission orders and the approved gas tariff, and the monthly cost of gas rates resulted in the precise recovery of actual gas costs incurred by the company.

C. INDUSTRIAL SALES PROGRAM-RIDER

Next, we find that the Industrial Sales Program Rider (ISP-R) continued to produce benefits for SCPC's firm customers and that the program should be continued. As SCPC witness Fant testified, the ISP-R allows SCPC to assign delivered gas costs to industrial customers at prices that are competitive with alternative fuel prices and enables SCPC to make interruptible sales that otherwise might not be made. (Testimony of Fant at 6-7.) Staff witness Sires confirmed that the ISP-R is needed for SCPC to effectively compete with alternate fuels in the industrial market. (Testimony of Sires at 6.) The ISP-

R promotes more efficient use of SCPC's facilities, helps to recover a portion of SCPC's fixed costs through industrial sales, allows SCPC to exert purchasing power in interruptible gas markets so that natural gas is obtained at better terms and prices, and provides additional flexibility and reliability to SCPC's system. (Testimony of Fant at 6-7.) For these reasons, the ISP-R should be continued without modification.

D. 20,000 DEKATHERMS PER DAY REQUIREMENT

By Commission order, SCPC is required to assign to the weighted average cost of gas (WACOG) 20,000 dekatherms of the least expensive daily delivered gas volume entering SCPC's system. (Testimony of Sires at 4.) During the period under review, this requirement caused SCPC to lose approximately $1.8 million in approved margins and caused its sale-for-resale customers to lose approximately $271,000. (Testimony of Beier at 5.)

In this proceeding, no evidence was presented that would warrant modifying the 20,000 dekatherms per day requirement. Rather, Staff witness Sires testified that this level of lowest cost gas entering the WACOG was acceptable and that the Commission Staff recommended that it be continued. During the review period the impact to the cost of gas to customers whose gas purchases were made at the Weighted Average Cost of Gas (WACOG) realized reductions in gas cost of $2,247,945. Of this amount SCE&G base rate customers realized gas cost reductions amounting to $1,723,423.24. (Testimony of Sires at 4-5.) No other witness or party took exception to Staff's recommendation. Accordingly, SCPC should continue to assign 20,000 dekatherms of the least expensive daily delivered gas volume to the WACOG.

E. PILOT HEDGING PROGRAM

We also find that SCPC's pilot hedging program provides benefits to firm customers and should be continued. The primary objective of the program is to reduce price volatility through the purchase of gas at the average market price over the long term. (Testimony of Beier at 6.) The Commission approved the pilot hedging program in 1995, initially allowing SCPC to hedge up to 30% of purchases for firm customers. The Commission allowed subsequent increases in volumes that may be hedged. Since 1997, SCPC has been allowed to hedge 75% of estimated purchases for firm customers.

We find that SCPC's hedging program continues to achieve its primary objective of reducing price volatility and that the current maximum level of 75% of firm purchases is appropriate for achieving that objective. These findings are supported by the testimony of SCPC witness Beier and Staff witness Sires. Continuation of the pilot hedging program is therefore approved at the current allowed volumes of 75% of estimated gas purchases for firm customers. We reserve the right to modify the program in the future, should present facts or circumstances change.

IT IS THEREFORE ORDERED THAT:

1. SCPC's gas purchasing policies and practices during the period January 1999 through December 1999 are found to be prudent.

2. SCPC is found to have properly adhered to the gas cost recovery provisions of its gas tariff during the period January 1999 through December 1999.

3. The requirement that SCPC assign to the WACOG 20,000 dekatherms of the least expensive daily delivered gas volume shall be continued.

4. The ISP-R shall be continued without modification.

5. The pilot hedging program shall be continued at 75% of estimated gas purchases for firm customers.

6. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

Philip T. Bradley
Chairman

ATTEST:

Gary E. Walsh
Executive Director

(SEAL)